

Message Text

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ACTION EUR-12

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L-03 NSAE-00 NSC-05 PA-01 PRS-01 SP-02 SS-15
USIA-06 AID-05 COME-00 EB-08 FRB-03 TRSE-00
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INFO AMEMBASSY PARIS

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ALL OTHER CONSULATES GENERAL IN CANADA (POUCH)

C O N F I D E N T I A L OTTAWA 08116

USOECD

E.O. 11652: GDS

TAGS: ECON, CA

SUBJECT: THE ECONOMIC CONSEQUENCES OF DONALD MACDONALD

REF: OTTAWA 8068

1. SUMMARY. THE TWO-YEAR TENURE NOW ENDING OF DONALD MACDONALD AS MINISTER OF FINANCE HAS COINCIDED WITH A PAINFUL, PROTRACTED PERIOD OF ECONOMIC ADJUSTMENT FOR CANADA WHICH IS NOT YET OVER. IN RETROSPECT, ECONOMIC POLICIES OVER THIS PERIOD HAVE TURNED OUT TO BE FAR FROM STELLAR, BUT THE PROBLEMS FACED BY CANADA OF SIMULTANEOUS INFLATION, RECESSION AND UNEMPLOYMENT, COMPOUNDED BY FINANCIAL IMBALANCES AND NEED FOR INDUSTRIAL ADAPTATION HAVE BEEN PARTICULARLY INTRACTABLE. RESPONSIBILITY FOR MANY IF NOT ALL OF THE QUESTIONABLE ECONOMIC POLICY CHOICES CAN BE PLACED ON PRIME MINISTER TRUDEAU HIMSELF RATHER THAN MACDONALD. HOWEVER, MADCONALD DID IN TIME
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WIN BACK A MEASURE OF CONFIDENCE FROM THE BUSINESS COMMUNITY TOWARDS GOVERNMENT WHICH HAD EARLIER BEEN LOST, AND HE WILL BE SORELY MISSED. HIS DEPARTURE FROM THE CABINET NOW INCREASES THE PROBABILITY OF A FALL BUDGET TO ADD ECONOMIC STIMULATION. END SUMMARY.

2. CANADIAN ECONOMIC PERFORMANCE SINCE THE FALL OF 1975

WHEN MACDONALD TOOK OVER THE FINANCE PORTFOLIO HAS BEEN AN UNHAPPY COMBINATION OF A PROTRACTED, IF SHALLOW, RECESSION WHICH IS NOT YET CLEARLY OVER; A NOT YET SUCCESSFUL EFFORT TO CONTAIN INFLATION; RISING UNEMPLOYMENT; AND VERY LARGE CURRENT ACCOUNT DEFICITS. THERE IS NO CLEAR LIGHT AS YET AT THE END OF THE TUNNEL; MACDONALD HIMSELF SAID WHEN HE ANNOUNCED HIS RESIGNATION SEPTEMBER 6, "WE ARE IN DIFFICULT ECONOMIC CIRCUMSTANCES... AND I EXPECT THAT TO BE SO FOR SOME MONTHS."

3. MANY OF THE ECONOMIC POLICY STRATEGIES DURING THIS PERIOD WERE APPARENTLY DEvised BY PRIME MINISTER TRUDEAU OR THE UPPER LEVEL OF THE BUREAUCRACY RATHER THAN BY MACDONALD. (IN SOME RESPECTS TRUDEAU HAS REMAINED HIS OWN FINANCE MINISTER.) THE IMPOSITION OF WAGE, PROFIT, AND PRICE CONTROLS 17 DAYS AFTER MACDONALD TOOK OFFICE WAS CLEARLY TRUDEAU'S INITIATIVE. THE PRIME MINISTER'S "MUSINGS" IN 1975 ABOUT THE POSSIBLE NEED FOR SOME FORM OF PERMANENT CONTROLS AND THE LIMITATIONS OF PRIVATE ENTERPRISE SENT SHOCK WAVES THROUGH THE BUSINESS COMMUNITY FOR MONTHS. TRUDEAU ALSO APPARENTLY SET THE CONDITIONS THIS SUMMER FOR BUSINESS AND LABOR PLEDGES FOR "COOPERATION" AS THE PRICE FOR AN EARLY END TO CONTROLS. THESE CONDITIONS TURNED OUT TO BE IMPOSSIBLE FOR ORGANIZED LABOR, THEREBY ALMOST GUARANTEEING CONTINUATION OF CONTROLS THROUGH 1978 CONTRIBUTING NOTHING TO IMPROVE-CONFIDENTIAL

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MENT IN THE INVESTMENT CLIMATE.

4. WHILE TRUDEAU SOMETIMES PRE-EMPTED POLICY DECISIONS FROM HIS FINANCE MINISTER, MACDONALD MAY HAVE RELIED ON WHAT TURNED OUT IN RETROSPECT TO BE OVERLY OPTIMISTIC ECONOMIC ASSESSMENTS FROM HIS STAFF IN FORMING BUDGET POLICIES WHICH HAVE BEEN CRITICIZED AS BEING UNDULY RESTRICTIVE. YET THE RESTRICTIVE BUDGET IN 1976 AND THE ONLY MILDLY STIMULATIVE BUDGET IN MARCH OF THIS YEAR WHICH SOUGHT TO ENCOURAGE PRIVATE SECTOR INVESTMENT WENT FAR IN IMPROVING BUSINESS CONFIDENCE AND GAINING ACCEPTANCE FOR THE IDEA OF GRADUALIST EXPANSION IN THE EFFORT TO REDUCE INFLATION. THE DEGREE OF CONFIDENCE IN MACDONALD'S GRADUALIST POLICIES WAS PERHAPS BEST MEASURED BY FOREIGN EXCHANGE MARKETS ON THE DAY HIS RESIGNATION WAS ANNOUNCED WHEN THE CANADIAN DOLLAR DROPPED NEARLY ONE-TENTH OF A CENT.

5. MACDONALD'S DEPARTURE PREDICTABLY HAS BEEN THE OCCASION FOR CRITICISM BY THE OPPOSITION DEPLORING THE CURRENT WEAK STATE OF THE ECONOMY AND CRITICISING TRUDEAU'S ECONOMIC POLICIES. WITH NEGATIVE REAL GNP

GROWTH IN THREE OF THE FOUR PAST QUARTERS AND A FEDERAL ELECTION EXPECTED IN LESS THAN A YEAR, PRESSURES TO ADD MORE ECONOMIC STIMULATION SOON BY THE FEDERAL GOVERNMENT WOULD BE STRONG IN ANY CASE. WITH MACDONALD'S DEPARTURE, A RESTRAINING INFLUENCE ON THE DEGREE OF STIMULATION TO BE INJECTED WILL HAVE BEEN REMOVED. DUEMLING

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